



Pumping money into universities won't propel an economic surge

Research doesn't confirm claims of payoff on funds

With Michigan's economy reeling from the ongoing difficulties of the Big Three automakers and continuing

losses in overall employment, politicians and others have claimed that greatly increasing the amount spent on the state's higher education establishment is a way to

reverse the decline. Gov. Jennifer Granholm has made this point repeatedly, calling for new higher

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"in-

vestments" as the panacea for much of what ails the state. Even the LSJ called universities a "lucrative investment" in a recent editorial.

While colleges and universities clearly play an important role in our overall education system, it is important to maintain some perspective regarding the limits of higher education spending as an engine of economic growth. Our research suggests that many of these expectations and claims have been overblown.

One popular myth is that Michigan's public universities and colleges have been perennially starved.

Our own research for a recent Mackinac Center policy brief suggests that this is not the case, even with modest declines in state appropriations. For example, real revenues per full-time equivalent student were higher in 2004 than in 2000 for every state university, save Ferris State.

What's more, there is scant empirical evidence that increasing state appropriations will actually reduce tuition.

Data we have gathered shows that instead of mainly lowering tuition, increased state higher education subsidies have funded vast university bureaucracies, higher faculty salaries and luxury amenities like rock-climbing walls, fancy gyms and hot tubs. Given this, it's hard to justify asking Michigan families who are struggling to make ends meet to dig deeper for institutions that in many cases resemble country clubs for 18- to 21-year-olds — and for university employees.

In addition, it is often claimed that spending more for colleges and universities is an "investment" that will generate economic growth. Our own statistical analysis on this subject actually points to the opposite conclusion: higher state appropriations are associated with lower economic growth.

Michigan provides a case study for this point. In 2000, the state ranked sixth in the nation in the proportion of personal income spent on higher education. Yet Mich-

igan's economic growth has lagged behind other nearby states which face similar economic pressures, but spend far less on universities.

This is just one of many available examples, and is supported by extensive statistical analysis based on more than 1,000 observations for all 50 states over a 40-year period.

Increasing higher education appropriations certainly appeals to politicians eager to look like they're "doing something" to reverse the state's sinking economic fortunes. But the data do not support the hypothesis that this will fix Michigan's broken economy or even make college more affordable for the average student.

In contrast, the evidence does support the value of reducing the state's tax burden as a means of providing an environment conducive to economic growth. This is a more promising strategy for turning around Michigan's troubled economy than just steering more money onto the state's "ivory towers."